

San Miguel Febres Cordero School, Inc.
Audit Report
For the Year Ended July 31, 2016

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
San Miguel Febres Cordero School, Inc.
Chicago, Illinois

We have audited the accompanying financial statements of **San Miguel Febres Cordero School, Inc.** (an Illinois not-for-profit organization), which comprise the statement of financial position as of July 31, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the 2016 financial statements referred to above present fairly, in all material respects, the financial position of San Miguel Febres Cordero School, Inc. as of July 31, 2016, and the results of its operations and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Comparative Summarized Information

We have previously audited San Miguel Febres Cordero School, Inc.'s 2015 financial statements, and we expressed an unmodified audit opinion on those statements in our report dated September 25, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended July 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Selden Fox, Ltd.

October 5, 2016

San Miguel Febres Cordero School, Inc.
Statement of Financial Position
July 31, 2016
(With Comparative Totals for 2015)

Assets	2016	2015
Cash	\$ 199,785	\$ 115,957
Investments	576,525	1,361,512
Accounts receivable - students, less allowance for doubtful accounts of \$710 (\$1,177 in 2015)	3,119	2,325
Prepaid expenses	48,442	33,092
Property and equipment, net	55,585	60,843
Total assets	\$ 883,456	\$ 1,573,729
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 34,053	\$ 32,901
Deferred revenues	22,203	26,192
Notes payable	172,756	993,362
Total liabilities	229,012	1,052,455
Net assets (deficit):		
Unrestricted	24,043	(883,362)
Temporarily restricted	72,401	28,636
Permanently restricted	558,000	1,376,000
Total net assets	654,444	521,274
Total liabilities and net assets	\$ 883,456	\$ 1,573,729

See independent auditor's report and accompanying notes.

San Miguel Febres Cordero School, Inc.
Statement of Activities
For the Year Ended July 31, 2016
(With Comparative Totals for 2015)

	2016			Total	2015
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenues:					
Contributions	\$ 901,798	\$ 43,765	\$ -	\$ 945,563	\$ 1,043,777
Special events, net	233,853	-	-	233,853	165,330
Tuition and fees	76,430	-	-	76,430	64,221
E-Rate program	23,269	-	-	23,269	17,051
Investment income (loss), net	33,013	-	-	33,013	(5,780)
Miscellaneous	28,824	-	-	28,824	28,769
Net assets released from restriction	818,000	-	(818,000)	-	-
Total revenues	2,115,187	43,765	(818,000)	1,340,952	1,313,368
Expenses:					
Program services:					
Middle school	482,817	-	-	482,817	521,053
Graduate support	96,976	-	-	96,976	85,757
Family support	39,451	-	-	39,451	40,862
General and administrative:					
Administration	219,467	-	-	219,467	224,811
Occupancy	103,711	-	-	103,711	97,151
Insurance	19,412	-	-	19,412	25,266
Interest	20,885	-	-	20,885	33,296
Depreciation	19,782	-	-	19,782	20,184
Marketing	54,072	-	-	54,072	48,922
Fund-raising and development	151,209	-	-	151,209	173,549
Total expenses	1,207,782	-	-	1,207,782	1,270,851
Change in net assets	907,405	43,765	(818,000)	133,170	42,517
Net assets (deficit):					
Beginning of the year	(883,362)	28,636	1,376,000	521,274	478,757
End of the year	\$ 24,043	\$ 72,401	\$ 558,000	\$ 654,444	\$ 521,274

See independent auditor's report and accompanying notes.

San Miguel Febres Cordero School, Inc.
Statement of Cash Flows
For the Year Ended July 31, 2016
(With Comparative Totals for 2015)

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ 133,170	\$ 42,517
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	19,782	20,184
Dividends reinvested	(16,886)	(7,551)
(Gain) loss on investments	(16,127)	13,833
Bad debts	310	1,177
Cash provided by (applied to) other operating activities:		
Accounts receivable	(1,104)	19,602
Prepaid expenses	(15,350)	(12,974)
Accounts payable and accrued expenses	1,152	(261)
Deferred revenue	(3,989)	21,280
Net cash from operating activities	100,958	97,807
Cash flows from investing activities - purchase of property and equipment	(14,524)	(3,000)
Cash flows from financing activities - repayment of notes payable	(2,606)	(3,184)
Net change in cash	83,828	91,623
Cash, beginning of the year	115,957	24,334
Cash, end of the year	<u>\$ 199,785</u>	<u>\$ 115,957</u>
Supplemental cash flow information:		
Interest paid	<u>\$ 20,885</u>	<u>\$ 33,296</u>
Non-cash contributions of stock received and subsequently redeemed	<u>\$ 121,577</u>	<u>\$ 109,672</u>
Investments redeemed to reduce a portion of the collateralized note payable	<u>\$ 818,000</u>	<u>\$ -</u>

See independent auditor's report and accompanying notes.

San Miguel Febres Cordero School, Inc.
Notes to the Financial Statements

1. Summary of Significant Accounting Policies

General – The San Miguel Febres School, Inc. (School), an Illinois nonprofit corporation, was incorporated on February 16, 2000. The School’s mission is to provide a high quality humane and Christian education to young people in the underserved Back of the Yards neighborhood on Chicago’s south side. In addition to a middle school, the School’s mission includes a graduate support program for students in high school and a family support program for families living in the neighborhood where the School operates.

The financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the School as a whole to present balances and transactions according to the existence or absence of donor imposed restrictions. This has been accomplished by classification of net assets and transactions into three classes: permanently restricted, temporarily restricted, or unrestricted.

Net assets and revenues, expenses, and gains and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Permanently Restricted Net Assets – Net assets subject to donor imposed stipulations that may be maintained permanently by the School. Generally, the donors of these assets permit the School to use all or part of the income earned on related investments for general or specific purposes.

Temporarily Restricted Net Assets – Net assets subject to donor imposed stipulations that may or will be met by actions of the School or the passage of time.

Unrestricted Net Assets – Net assets not subject to donor imposed stipulations.

Revenues are reported as increases in unrestricted net assets, unless use of the related assets is limited by donor imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments, and other assets or liabilities, are reported as increases or decreases in unrestricted net assets, unless their use is restricted by explicit donor stipulation or by law. Expiration of temporary restrictions on net assets (i.e., the donor imposed stipulated purpose has been fulfilled or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Temporarily restricted contributions whose restrictions are met in the same year are reported as unrestricted.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

San Miguel Febres Cordero School, Inc.
Notes to the Financial Statements (cont'd)

1. Summary of Significant Accounting Policies (cont'd)

General (cont'd)

Income and appreciation (depreciation) on investments of endowment and similar funds are reported as one of the following: (a) increases (decreases) in permanently restricted net assets, if the terms of the gift or the School's Board's interpretation of relevant state law require that they be added to the principal of a permanent endowment fund, (b) as increases (decreases) in temporarily restricted net assets, if the terms of the gift impose restrictions on the use of income, or (c) as increases (decreases) in unrestricted net assets in all other cases.

Temporarily restricted net assets at July 31, 2016 and 2015, consist of contributions from a donor to either help pay down the School's note payable or be added to the permanently restricted endowment. Permanently restricted net assets at July 31, 2016 and 2015, consist of an endowment fund established for middle school scholarships. In 2016, at the request of the School, donors approved the release of \$818,000 of previously restricted endowment funds. The funds released were used to repay a portion of the school's collateralized note payable with a bank. Based on a challenge, one donor has committed to release up to \$85,500 of additional funds based the School's ability to raise contributions from new donors.

Use of Estimates – The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and operations and the related disclosures at the date of the financial statements and during the reporting period. Actual results could differ from those estimates.

Investments – The School's investments are accounted for at fair value with unrealized gains and losses reported in the statement of activities. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of a given measurement date. Fair value measurements are based on a three-level hierarchy based on the reliability of observable and unobservable inputs as follows:

Level 1 – Valuations are based on quoted prices in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.

Level 2 – Valuations are based on quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and model-derived valuations whose significant inputs are observable.

Level 3 – Valuations are based on unobservable inputs for the asset or liability that reflect the reporting entity's own data and assumptions that market participants would use in pricing the asset or liability.

San Miguel Febres Cordero School, Inc.
Notes to the Financial Statements (cont'd)

1. Summary of Significant Accounting Policies (cont'd)

Property and Equipment – Property and equipment are stated at cost, or in the case of gifts, at fair value at the date of donation. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets, ranging from 3 to 10 years.

Deferred Revenue – Tuition and fees received in advance are accounted for as deferred revenue upon receipt and recognized in the academic year to which they apply. Special event revenue is recognized as the related event occurs.

Income Taxes – The School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code; thus, no provision for income tax has been provided for in the financial statements. Although the School is not required to file tax returns with federal or state governments, it elected to file a federal return in 2015. Although the School has received no notice of exam, that return, along with the School's activities in years for which no returns were filed, remain subject to examination by federal and state authorities upon request.

Subsequent Events – Subsequent events have been evaluated through October 5, 2016, which is the date the financial statements were available to be issued.

2. Investments

The School's investments at July 31 consist of the following:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
July 31, 2016:				
Money market funds	\$ 71,226	\$ -	\$ -	\$ 71,226
Corporate bonds	452,459	-	-	452,459
Certificates of deposit	-	52,840	-	52,840
	<u>\$ 523,685</u>	<u>\$ 52,840</u>	<u>\$ -</u>	<u>\$ 576,525</u>
July 31, 2015:				
Money market funds	\$ 847,792	\$ -	\$ -	\$ 847,792
Corporate bonds	438,131	-	-	438,131
Certificates of deposit	-	75,589	-	75,589
	<u>\$ 1,285,923</u>	<u>\$ 75,589</u>	<u>\$ -</u>	<u>\$ 1,361,512</u>

The School's investments in money market funds, corporate bonds, and government securities are valued based on quoted market prices and classified in Level 1 of the hierarchy. The School's certificates of deposit are valued based on rates currently offered for deposits of similar remaining maturities and are classified in Level 2 of the hierarchy.

San Miguel Febres Cordero School, Inc.
Notes to the Financial Statements (cont'd)

2. Investments (cont'd)

Investment income for the years ended July 31 consisted of the following:

	2016	2015
Interest and dividends	\$ 16,886	\$ 8,053
Gain (loss) on investments	16,127	(13,833)
	\$ 33,013	\$ (5,780)

3. Property and Equipment

Property and equipment at July 31 consists of the following:

	2016	2015
Building and improvements	\$ 306,095	\$ 306,095
Furniture and equipment	401,886	387,362
Vehicles	74,079	74,079
	782,060	767,536
Less accumulated depreciation	726,475	706,693
	\$ 55,585	\$ 60,843

4. Notes Payable

In 2012, the School established a line of credit facility with a bank which provides for borrowings up to the pledges value of collateral. Interest on the line of credit is payable monthly at the 30 day LIBOR rate plus 3% (3.48% and 3.19% at July 31, 2016 and 2015, respectively). The line of credit, with a balance of \$172,756 and \$990,756 at July 31, 2016 and 2015, respectively, is due on demand and secured by the school's investment account, with a balance of \$576,525 and \$1,361,512 at July 31, 2016 and 2015, respectively.

The School also had a \$17,033 retail installment contract for the purchase of a vehicle. The contract, with a balance of \$2,606 at July 31, 2015, was due in monthly installments of \$290, including interest at 0.90%. The contract was secured by the related vehicle with a net book value of \$0 at July 31, 2015, and was paid in full in April 2016.

5. In-Kind Contributions

The statement of activities includes in-kind contributions of \$58,950 and \$97,828 for the years ended July 31, 2016 and 2015, respectively, to support the School's summer camp and special events.

San Miguel Febres Cordero School, Inc.
Notes to the Financial Statements (cont'd)

6. Special Events

Gross receipts and related costs for special events for the years ended July 31 are as follows:

	2016	2015
Gross receipts	\$ 396,464	\$ 330,125
Related costs	162,611	164,795
	\$ 233,853	\$ 165,330

7. Operating Lease

The School rents its facilities under the terms of an operating lease that extends through June 30, 2018. Remaining payments due under the lease for the years ending June 30 are as follows:

2017	\$ 47,796
2018	45,015
	\$ 92,811

Rent expense totaled \$46,404 and \$46,288 for the years ended July 31, 2016 and 2015, respectively.

8. Employee Benefit Plan

The School maintains a 403(b) defined contribution retirement plan which covers substantially all employees. The School may elect to provide a matching contribution to the plan; however, did not elect to do so in 2016 or 2015.

9. Endowment Fund

The School's endowment fund was established to provide middle school scholarships and is permanently restricted by donors. When a donor expresses clear intent in written documentation, state legislation requires the School to follow the donor's instructions. When a donor's intent is not explicitly expressed, applicable legislation directs the School to spend an amount that is prudent and consistent with the donation's purpose, and considers the donor's intent that the fund continue in perpetuity.

The School targets an asset allocation that places greater emphasis on fixed income investments to achieve long-term return objectives within prudent risk constraints. A spending policy has not been adopted as the School attempts to grow the real base of the assets in the endowment.

San Miguel Febres Cordero School, Inc.
Notes to the Financial Statements (cont'd)

9. Endowment Fund (cont'd)

The activity in the School's endowment fund for the years ended July 31 is as follows:

	2016	2015
Balance, beginning of the year	\$ 1,376,000	\$ 1,376,000
Released from restriction	(818,000)	-
Investment income	18,525	-
Appropriated for expenditure	(18,525)	-
	\$ 558,000	\$ 1,376,000

The lack of activity in the School's endowment fund for the year ended July 31, 2015 is attributable to the fact the fair value of the School's investments of \$1,361,512 and \$1,367,794 at July 31, 2015 and 2014, respectively, were less than the \$1,376,000 balance of the endowment fund. The deficiency was reported in unrestricted net assets at July 31, 2015.

10. Comparative Prior Year Information

The financial statements include certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the financial statements for the year ended July 31, 2015.

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INDEPENDENT AUDITOR'S STATEMENT OF RESPONSIBILITY FOR SUPPLEMENTARY FINANCIAL INFORMATION

Board of Directors
San Miguel Febres Cordero School, Inc.
Chicago, Illinois

Our audit was conducted for the purpose of forming an opinion on the financial statements for the year ended July 31, 2016 as a whole. The supplementary schedule of expenses shown on pages 12 through 13 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information for the year ended July 31, 2016, is fairly stated in all material respects in relation to the financial statements as a whole.

Selden Fox, Ltd.

October 5, 2016

San Miguel Febres Cordero School, Inc.
Schedule of Expenses
For the Year Ended July 31, 2016

	Program Services				General and Administrative	Marketing	Fund-raising and Development	Total
	Middle School	Graduate Support	Family Support	Subtotal				
Compensation	\$ 331,802	\$ 91,976	\$ 38,358	\$ 462,136	\$ 128,816	\$ 51,874	\$ 119,092	\$ 761,918
Volunteer and professional development	39,494	75	-	39,569	785	-	938	41,292
Curriculum supplies	6,321	-	-	6,321	-	-	-	6,321
After school and extracurriculars	92,640	4,274	1,093	98,007	-	-	119	98,126
Technology and telecommunications	3,529	-	-	3,529	41,869	300	6,333	52,031
Student services and assistance	4,263	-	-	4,263	-	-	-	4,263
Professional contracted services	-	-	-	-	46,913	-	134	47,047
Occupancy	627	-	-	627	103,711	-	8,400	112,738
Insurance	-	-	-	-	19,412	-	-	19,412
Miscellaneous other	4,141	651	-	4,792	774	1,898	16,193	23,657
Interest	-	-	-	-	20,885	-	-	20,885
Depreciation	-	-	-	-	19,782	-	-	19,782
Bad debt expense	-	-	-	-	310	-	-	310
	\$ 482,817	\$ 96,976	\$ 39,451	\$ 619,244	\$ 383,257	\$ 54,072	\$ 151,209	\$ 1,207,782

See independent auditor's statement of responsibility for supplementary financial information.